

FISCAL NOTE

SB 1928 - HB 1258

March 7, 2007

SUMMARY OF BILL: Exempts certain essential food items from state sales tax. Authorizes local governments to reduce or eliminate local option sales tax on such essential food items upon action by local governing authorities.

ESTIMATED FISCAL IMPACT:

Decrease State Revenues - \$36,885,000 / General Fund
\$82,725,000 / Education Fund
\$467,000 / Department of Revenue
\$1,167,000 / Sinking Fund

Increase State Expenditures - \$86,000 One-Time

Decrease Local Govt. Revenues – \$5,836,000

Other Fiscal Impact – An additional permissive decrease to local government revenues is estimated as less than \$48,000,000. Any such decrease is dependent upon the number and extent of actions taken by local governing authorities.

Assumptions:

- According to the Department of Revenue, taxable sales of food and food ingredients in Tennessee for FY05-06 were approximately \$7,753,600,000.
- Based on historical collection patterns, taxable sales of food and food ingredients are estimated to grow by approximately 2.5% per year.
- Taxable sales for FY07-08 are estimated to be approximately \$8,146,126,000.
- “Essential food items” are infant formula, infant juice, infant cereal, juice, breakfast cereals, peanut butter, milk, beans and peas, carrots, tuna, cheese, and eggs.
- Based from data obtained from the U.S. Department of Labor’s Consumer Expenditure Survey and the U.S. Department of Agriculture’s Special Supplemental Nutrition Program for Women, Infants, and

Children, approximately 26.0% of all food and food ingredient expenditures are for items identified as essential food items.

- Taxable sales for essential food items in Tennessee for FY07-08 are estimated to be \$2,117,993,000 ($\$8,146,126,000 \times 26.0\% = \$2,117,992,760$).
- Current state sales tax rate on food and food ingredients is 6.0%.
- The decrease to state sales tax revenues is estimated to be \$127,080,000 ($\$2,117,993,000 \times 6.0\% = \$127,079,580$).
- The \$127,080,000 in state sales tax revenues would be apportioned as follows: \$36,885,000 to the General Fund, \$82,725,000 to the Education Fund, \$5,836,000 to local governments, \$467,000 to the DOR, and \$1,167,000 to the Sinking Fund.
- The net decrease to state revenues is estimated to be \$121,244,000 per year ($\$127,080,000 - \$5,836,000 \text{ local government share} = \$121,244,000$).
- Local government revenues are estimated to decrease by \$5,836,000 from the loss of state-shared sales tax revenue.
- The local option sales tax rate is estimated to average 2.25%.
- An additional permissive decrease to local government revenues is estimated to be less than \$48,000,000 per year ($\$2,117,993,000 \times 2.25\% = \$47,654,843$).
- The increase to one-time state expenditures for computer and software enhancements is estimated to be \$86,000.

CERTIFICATION:

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White".

James W. White, Executive Director